UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended July 1, 2023.

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ________________________ to ________________________

Commission file number 1-7685

AVERY DENNISON CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**95-1492269**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
8080 Norton Parkway **Mentor, Ohio**	**44060**
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: (440) 534-6000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, $1 par value	AVY	New York Stock Exchange
1.25% Senior Notes due 2025	AVY25	Nasdaq Stock Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

x Large accelerated filer   o Accelerated filer   o Non-accelerated filer   o Smaller reporting company   o Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No x

Number of shares of $1 par value common stock outstanding as of July 29, 2023: 80,582,836

AVERY DENNISON CORPORATION

FISCAL SECOND QUARTER 2023 QUARTERLY REPORT ON FORM 10-Q

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Safe Harbor Statement

This Quarterly Report contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements, which are not statements of historical fact, contain estimates, assumptions, projections and/or expectations regarding future events that may or may not occur. Words such as "aim," "anticipate," "assume," "believe," "continue," "could," "estimate," "expect," "foresee," "guidance," "intend," "may," "might," "objective," "plan," "potential," "project," "seek," "shall," "should," "target," "will," "would," or variations thereof, and other expressions that refer to future events and trends, identify forward-looking statements. These forward-looking statements, as well as financial or other business goals or targets, are subject to certain risks and uncertainties, which could cause our actual results to differ materially from the expected results, performance or achievements expressed or implied by such forward-looking statements.

We believe that the most significant risk factors that could affect our financial performance in the near term include: (i) the impacts to underlying demand for our products from global economic conditions, political uncertainty and changes in environmental standards and governmental regulations; (ii) the cost and availability of raw materials; (iii) competitors' actions, including pricing, expansion in key markets and product offerings; (iv) the degree to which higher costs can be offset with productivity measures and/or passed on to customers through price increases, without a significant loss of volume; (v) foreign currency fluctuations; and (vi) the execution and integration of acquisitions.

The more significant risks and uncertainties that may impact us are discussed in more detail under "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2022 Annual Report on Form 10-K filed on February 22, 2023, and subsequent quarterly reports on Form 10-Q. Actual results and trends may differ materially from historical or anticipated results depending on a variety of factors, including but not limited to, risks and uncertainties related to the following:

- International Operations – worldwide and local economic and market conditions; changes in political conditions, including those related to China and those related to the Russian invasion of Ukraine; and fluctuations in foreign currency exchange rates and other risks associated with foreign operations, including in emerging markets
- Our Business – fluctuations in demand affecting sales to customers; fluctuations in the cost and availability of raw materials and energy; changes in our markets due to competitive conditions, technological developments, environmental standards, laws and regulations, and customer preferences; the impact of competitive products and pricing; execution and integration of acquisitions; selling prices; customer and supplier concentrations or consolidations; financial condition of distributors; outsourced manufacturers; product and service quality; timely development and market acceptance of new products, including sustainable or sustainably-sourced products; investment in development activities and new production facilities; successful implementation of new manufacturing technologies and installation of manufacturing equipment; our ability to generate sustained productivity improvement; our ability to achieve and sustain targeted cost reductions; collection of receivables from customers; and our environmental, social and governance practices
- Income Taxes – fluctuations in tax rates; changes in tax laws and regulations, and uncertainties associated with interpretations of such laws and regulations; retention of tax incentives; outcome of tax audits; and the realization of deferred tax assets
- Information Technology – disruptions in information technology systems or data security breaches, including cyber-attacks or other intrusions to network security; and successful installation of new or upgraded information technology systems
- Human Capital – recruitment and retention of employees and collective labor arrangements
- Our Indebtedness – credit risks; our ability to obtain adequate financing arrangements and maintain access to capital; fluctuations in interest rates; volatility of financial markets; and compliance with our debt covenants
- Ownership of Our Stock – potential significant variability of our stock price and amounts of future dividends and share repurchases
- Legal and Regulatory Matters – protection and infringement of intellectual property; impact of legal and regulatory proceedings, including with respect to environmental, anti-corruption, health and safety, and trade compliance
- Other Financial Matters – fluctuations in pension costs and goodwill impairment

Our forward-looking statements are made only as of the date of this Form 10-Q. We assume no duty to update these forward-looking statements to reflect new, changed or unanticipated events or circumstances, other than as may be required by law.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS
(*Unaudited*)

(Dollars in millions, except per share amount)	July 1, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 217.1	$ 167.2
Trade accounts receivable, less allowances of $32.3 and $34.4 at July 1, 2023 and December 31, 2022, respectively	1,415.2	1,374.4
Inventories	990.5	1,009.9
Other current assets	228.2	230.5
Total current assets	2,851.0	2,782.0
Property, plant and equipment, net	1,567.0	1,540.2
Goodwill	1,985.1	1,862.4
Other intangibles resulting from business acquisitions, net	883.8	840.3
Deferred tax assets	119.7	115.1
Other assets	859.7	810.5
	$ 8,266.3	$ 7,950.5
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term borrowings and current portion of long-term debt and finance leases	$ 635.8	$ 598.6
Accounts payable	1,234.8	1,339.3
Accrued payroll and employee benefits	178.9	228.5
Other current liabilities	559.2	633.4
Total current liabilities	2,608.7	2,799.8
Long-term debt and finance leases	2,909.7	2,503.5
Long-term retirement benefits and other liabilities	475.0	367.1
Deferred tax liabilities and income taxes payable	257.7	247.9
Commitments and contingencies (see Note 11)		
Shareholders' equity:		
Common stock, $1 par value per share, authorized – 400,000,000 shares at July 1, 2023 and December 31, 2022; issued – 124,126,624 shares at July 1, 2023 and December 31, 2022; outstanding – 80,650,885 shares and 80,810,016 shares at July 1, 2023 and December 31, 2022, respectively	124.1	124.1
Capital in excess of par value	851.3	879.3
Retained earnings	4,526.9	4,414.6
Treasury stock at cost, 43,475,739 shares and 43,316,608 shares at July 1, 2023 and December 31, 2022, respectively	(3,093.9)	(3,021.8)
Accumulated other comprehensive loss	(393.2)	(364.0)
Total shareholders' equity	2,015.2	2,032.2
	$ 8,266.3	$ 7,950.5

See Notes to Unaudited Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(*Unaudited*)

(In millions, except per share amounts)	Three Months Ended July 1, 2023	Three Months Ended July 2, 2022	Six Months Ended July 1, 2023	Six Months Ended July 2, 2022
Net sales	$ 2,090.5	$ 2,347.0	$ 4,155.5	$ 4,696.3
Cost of products sold	1,537.1	1,703.5	3,059.8	3,411.5
Gross profit	553.4	643.5	1,095.7	1,284.8
Marketing, general and administrative expense	319.6	332.7	654.0	687.7
Other expense (income), net	68.3	3.4	86.1	1.8
Interest expense	31.9	20.8	58.3	40.4
Other non-operating expense (income), net	(6.6)	(1.3)	(11.2)	(2.7)
Income before taxes	140.2	287.9	308.5	557.6
Provision for income taxes	39.8	73.4	86.9	144.9
Net income	$ 100.4	$ 214.5	$ 221.6	$ 412.7
Per share amounts:				
Net income per common share	$ 1.24	$ 2.63	$ 2.74	$ 5.03
Net income per common share, assuming dilution	$ 1.24	$ 2.61	$ 2.73	$ 5.00
Weighted average number of shares outstanding:				
Common shares	80.7	81.7	80.8	82.0
Common shares, assuming dilution	81.0	82.1	81.2	82.6

See Notes to Unaudited Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(*Unaudited*)

	Three Months Ended		Six Months Ended	
(In millions)	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Net income	$ 100.4	$ 214.5	$ 221.6	$ 412.7
Other comprehensive income (loss), net of tax:				
Foreign currency translation	(27.3)	(53.7)	(26.9)	(33.4)
Pension and other postretirement benefits	(.2)	.9	(.4)	1.7
Cash flow hedges	(4.7)	1.7	(1.9)	3.5
Other comprehensive income (loss), net of tax	(32.2)	(51.1)	(29.2)	(28.2)
Total comprehensive income, net of tax	$ 68.2	$ 163.4	$ 192.4	$ 384.5

See Notes to Unaudited Condensed Consolidated Financial Statements

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In millions)	Six Months Ended July 1, 2023	Six Months Ended July 2, 2022
Operating Activities		
Net income	$ 221.6	$ 412.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	91.5	88.2
Amortization	54.8	57.0
Provision for credit losses and sales returns	18.9	23.9
Stock-based compensation	12.2	23.9
Deferred taxes and other non-cash taxes	(17.5)	8.6
Other non-cash expense and loss (income and gain), net	17.0	15.0
Changes in assets and liabilities and other adjustments	(207.0)	(234.9)
Net cash provided by operating activities	191.5	394.4
Investing Activities		
Purchases of property, plant and equipment	(115.9)	(106.8)
Purchases of software and other deferred charges	(11.0)	(9.9)
Proceeds from sales of property, plant and equipment	.3	2.1
Proceeds from insurance and sales (purchases) of investments, net	(1.2)	2.0
Payments for acquisitions, net of cash acquired, and venture investments	(194.1)	(37.0)
Net cash used in investing activities	(321.9)	(149.6)
Financing Activities		
Net increase (decrease) in borrowings with maturities of three months or less	281.8	176.9
Additional long-term borrowings	394.9	—
Repayments of long-term debt and finance leases	(252.6)	(3.4)
Dividends paid	(126.2)	(117.4)
Share repurchases	(89.5)	(268.7)
Net (tax withholding) proceeds related to stock-based compensation	(23.7)	(25.1)
Other	(1.6)	—
Net cash provided by (used in) financing activities	183.1	(237.7)
Effect of foreign currency translation on cash balances	(2.8)	(5.0)
Increase (decrease) in cash and cash equivalents	49.9	2.1
Cash and cash equivalents, beginning of year	167.2	162.7
Cash and cash equivalents, end of period	$ 217.1	$ 164.8

See Notes to Unaudited Condensed Consolidated Financial Statements

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. General

The unaudited Condensed Consolidated Financial Statements and related notes in this Quarterly Report on Form 10-Q are presented as permitted by Article 10 of Regulation S-X and do not contain certain information included in the audited Consolidated Financial Statements and related notes in our 2022 Annual Report on Form 10-K, which should be read in conjunction with this Quarterly Report on Form 10-Q. These unaudited Condensed Consolidated Financial Statements contain all adjustments of a normal and recurring nature necessary for a fair statement of our interim results. Interim results of operations are not necessarily indicative of future results. These unaudited Condensed Consolidated Financial Statements reflect our current estimates and assumptions affecting (i) our reported amounts of assets and liabilities and related disclosures as of the date of the financial statements and (ii) our reported amounts of sales and expenses during the reporting periods presented.

Fiscal Periods
The three and six months ended July 1, 2023 and July 2, 2022 each consisted of thirteen-week and twenty-six week periods, respectively.

Accounting Guidance Update
Supplier Finance Programs
In the first quarter of 2023, we adopted accounting guidance to enhance the transparency of supplier finance programs to allow financial statement users to understand the programs' nature, activity during the period, changes from period to period and potential magnitude. This guidance is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, except for the provision on roll-forward information, which is effective for fiscal years beginning after December 15, 2023. See Note 13, “Supplemental Financial Information,” to the unaudited Condensed Consolidated Financial Statements for more information.

Note 2. Business Acquisitions

On May 22, 2023, we completed our business acquisition of LG Group, Inc. ("Lion Brothers"), a Maryland-based designer and manufacturer of apparel brand embellishments. On March 6, 2023, we completed our business acquisition of Thermopatch, Inc. ("Thermopatch"), a New York-based manufacturer specializing in labeling, embellishments and transfers for the sports, industrial laundry, workwear and hospitality industries. These acquisitions enhance the product portfolio in our Solutions Group reportable segment.

The acquisitions of Lion Brothers and Thermopatch are referred to collectively as the "2023 Acquisitions."

The aggregate purchase consideration, including purchase consideration payable, for the 2023 Acquisitions was approximately $205 million. We funded the 2023 Acquisitions using cash and commercial paper borrowings.

The final allocations of purchase consideration for the 2023 Acquisitions to assets and liabilities are ongoing as we continue to evaluate certain balances, estimates and assumptions during the measurement period (up to one year from the acquisition date). Consistent with the allowable time to complete our assessment, the valuation of certain acquired assets and liabilities, including tangible and intangible assets, environmental liabilities and income taxes, is currently pending finalization.

The 2023 Acquisitions were not material, individually or in the aggregate, to the unaudited Condensed Consolidated Financial Statements.

Note 3. Goodwill and Other Intangibles Resulting from Business Acquisitions

Changes in the net carrying amount of goodwill for the six months ended July 1, 2023 by reportable segment are shown below.

(In millions)	Materials Group	Solutions Group	Total
Goodwill as of December 31, 2022	$ 618.7	$ 1,243.7	$ 1,862.4
Acquisitions[1]	—	119.7	119.7
Translation adjustments	3.5	(.5)	3.0
Goodwill as of July 1, 2023	$ 622.2	$ 1,362.9	$ 1,985.1

[1] Goodwill acquired related to the 2023 Acquisitions. We expect substantially all of the recognized goodwill related to the 2023 Acquisitions not to be deductible for income tax purposes.

In connection with the 2023 Acquisitions, we acquired approximately $88 million of identifiable finite-lived intangible assets, which consisted of customer relationships, patented and other developed technology, and trade names and trademarks. We utilized the income approach to estimate the fair values of acquired identifiable intangibles, primarily using Level 3 inputs. We applied significant judgment in determining the fair value of intangible assets, which included our estimates and assumptions with respect to future revenue and related profit margins, customer retention rates, technology migration curves, royalty rates, discount rates and economic lives assigned to the acquired intangible assets.

The table below summarizes the amounts and weighted average useful lives of these intangible assets as of the respective acquisition dates.

		Amount (in millions)	Weighted average amortization period (in years)
Customer relationships	$	64.9	11
Patented and other developed technology		19.7	7
Trade names and trademarks		3.0	6

Amortization expense for all finite-lived intangible assets resulting from business acquisitions, including the 2023 Acquisitions, was $21.6 million and $20.6 million for the three months ended July 1, 2023 and July 2, 2022, respectively, and $42.1 million and $41.1 million for the six months ended July 1, 2023 and July 2, 2022, respectively.

Estimated future amortization expense related to existing finite-lived intangible assets for the remainder of fiscal year 2023 and for each of the next four fiscal years and thereafter is shown below. These amounts include the impact of the 2023 Acquisitions.

(In millions)		Estimated Amortization Expense
2023 (remainder of year)	$	44.2
2024		88.3
2025		87.5
2026		84.5
2027		84.2
2028 and thereafter		340.1

Note 4. Debt

In March 2023, we issued $400 million of senior notes, due March 15, 2033, which bear an interest rate of 5.750% per year, payable semiannually in arrears. Our net proceeds from this issuance, after deducting underwriting discounts and offering expenses, were $394.9 million, which we used to repay both existing indebtedness under our commercial paper programs and our $250 million aggregate principal amount of senior notes that matured on April 15, 2023.

The estimated fair value of our long-term debt is primarily based on the credit spread above U.S. Treasury securities or euro government bond securities, as applicable, on notes with similar rates, credit ratings and remaining maturities. The fair value of short-term borrowings, which include commercial paper issuances and short-term lines of credit, approximates their carrying value given the short duration of these obligations. The fair value of our total debt was $3.31 billion at July 1, 2023 and $2.85 billion at December 31, 2022. Fair values were determined based primarily on Level 2 inputs, which are inputs other than quoted prices in active markets that are either directly or indirectly observable.

In January 2023, we extended the maturity date of our revolving credit facility (the “Revolver”) by one year to February 13, 2026 and increased the commitments by $400 million, from $800 million to $1.20 billion. Additionally, we amended the Revolver to replace the LIBOR benchmark interest rate with Term SOFR, Euribor and SONIA benchmark interest rates. The Revolver contains a financial covenant requiring that we maintain a specified ratio of total debt in relation to a certain measure of income. As of both July 1, 2023 and December 31, 2022, we were in compliance with this financial covenant. No balance was outstanding under the Revolver as of July 1, 2023 or December 31, 2022.

Note 5. Cost Reduction Actions

2023 Actions

During the six months ended July 1, 2023, we recorded $28.6 million in restructuring charges related to our 2023 actions. These charges consisted of severance and related costs for the reduction of approximately 700 positions at numerous locations across our company. These actions, which were primarily taken in our Materials Group reportable segment, largely related to headcount reductions.

During the six months ended July 1, 2023, restructuring charges and payments were as follows:

(In millions)	Accrual at December 31, 2022	Charges, Net of Reversals	Cash Payments	Non-cash Impairment	Foreign Currency Translation	Accrual at July 1, 2023
2023 Actions						
Severance and related costs	$ —	$ 26.9	$ (23.5)	$ —	$ —	$ 3.4
Asset impairment charges	—	1.7	—	(1.7)	—	—
2019/2020 Actions						
Severance and related costs	5.1	(1.0)	(4.1)	—	—	—
Total	$ 5.1	$ 27.6	$ (27.6)	$ (1.7)	$ —	$ 3.4

Accruals for severance and related costs, as well as lease cancellation costs, were included in “Other current liabilities” in the unaudited Condensed Consolidated Balance Sheets. Asset impairment charges were based on the estimated market value of the assets, less selling costs, if applicable. Restructuring charges were included in “Other expense (income), net” in the unaudited Condensed Consolidated Statements of Income.

The table below shows the total amount of restructuring charges, net of reversals, incurred by reportable segment and Corporate.

	Three Months Ended		Six Months Ended	
(In millions)	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Restructuring charges, net of reversals, by reportable segment and Corporate				
Materials Group	$ 5.6	$ .6	$ 19.9	$ 1.1
Solutions Group	4.4	1.7	7.8	2.1
Corporate	—	.8	(.1)	.8
Total	$ 10.0	$ 3.1	$ 27.6	$ 4.0

Note 6. Financial Instruments

We enter into foreign exchange hedge contracts to reduce our risk from foreign exchange rate fluctuations associated with receivables, payables, loans and firm commitments denominated in certain foreign currencies that arise primarily as a result of our operations outside the U.S. We also enter into futures contracts to hedge certain price fluctuations for a portion of our anticipated domestic purchases of natural gas. The impact of these foreign exchange and commodities hedge activities on the unaudited Condensed Consolidated Financial Statements was not material.

In March 2020, we entered into U.S. dollar to euro cross-currency swap contracts with a total notional amount of $250 million to have the effect of converting the fixed-rate U.S. dollar-denominated debt to euro-denominated debt, including semiannual interest payments and the payment of principal at maturity. During the term of the contract, which ends on April 30, 2030, we pay fixed-rate interest in euros and receive fixed-rate interest in U.S. dollars. These contracts have been designated as cash flow hedges. The fair value of these contracts was $9.7 million and $15.5 million as of July 1, 2023 and December 31, 2022, respectively, which was included in "Other Assets" in the unaudited Condensed Consolidated Balance Sheets. Refer to Note 10, “Fair Value Measurements,” to the unaudited Condensed Consolidated Financial Statements for more information.

We recorded no ineffectiveness from our cross-currency swap to earnings during the three or six months ended July 1, 2023 or July 2, 2022.

Note 7. Taxes Based on Income

The following table summarizes our income before taxes, provision for income taxes, and effective tax rate:

	Three Months Ended		Six Months Ended	
(Dollars in millions)	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Income before taxes	$ 140.2	$ 287.9	$ 308.5	$ 557.6
Provision for income taxes	39.8	73.4	86.9	144.9
Effective tax rate	28.4 %	25.5 %	28.2 %	26.0 %

Our provision for income taxes for the three and six months ended July 1, 2023 included a net tax charge related to the tax on global intangible low-taxed income ("GILTI") of our foreign subsidiaries after benefiting from our current year exclusion election as well as the recognition of foreign withholding taxes on current year earnings, partially offset by the benefit from foreign-derived intangible income ("FDII"). Our provision for income taxes for the three and six months ended July 1, 2023 was also adversely affected by higher non-deductible expenses primarily resulting from foreign currency and interest rate fluctuations, as well as lower tax incentives in certain foreign jurisdictions. In addition, our provision for income taxes for the three and six months ended July 1, 2023 included discrete tax benefits from decreases in certain tax reserves as a result of favorable court rulings in a foreign jurisdiction.

In 2020, the U.S. Department of Treasury issued final regulations that provide certain U.S. taxpayers with an annual election to exclude certain foreign income subject to a high effective tax rate from their GILTI inclusions. We reflected the benefit related to a GILTI exclusion election we plan to make for tax year 2023, but we have yet to determine whether to make the election for tax year 2022. We continue to evaluate the impact of the election and currently anticipate that the benefit from making this election on our 2022 U.S. federal tax return may be significant.

Our provision for income taxes for the three and six months ended July 2, 2022 included $7.0 million and $13.7 million, respectively, of net tax charge related to the tax on GILTI of our foreign subsidiaries and the recognition of foreign withholding taxes on current year earnings, partially offset by the benefit from FDII. Our provision for income taxes for the three and six months ended July 2, 2022 also included net discrete tax benefits primarily from decreases in certain tax reserves, including interest and penalties, as a result of closing tax years.

The amount of income taxes we pay is subject to ongoing audits by taxing jurisdictions around the world. Our estimate of the potential outcome of any uncertain tax issue is subject to our assessment of the relevant risks, facts and circumstances existing at the time. We believe that we have adequately provided for reasonably foreseeable outcomes related to these matters. However, our future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are made or resolved, which may impact our effective tax rate. The final determination of tax audits and any related legal proceedings could materially differ from the amounts currently reflected in our tax provision for income taxes and the related liabilities. We and our U.S. subsidiaries have completed the Internal Revenue Service's ("IRS") Compliance Assurance Process through 2018. With limited exceptions, we are no longer subject to income tax examinations by tax authorities for years prior to 2010.

It is reasonably possible that, during the next 12 months, we may realize a net decrease in our uncertain tax positions, including interest and penalties, of approximately $7 million, primarily as a result of closing tax years.

Subsequent to the end of our second quarter 2023, the IRS issued a notice providing temporary relief for taxpayers in determining whether certain foreign taxes are eligible for foreign tax credits. Taxpayers have the option to apply the notice to their 2022 and 2023 tax years. We are evaluating the impact of this notice and currently anticipate that the benefit related thereto may be significant.

Note 8. Net Income Per Common Share

Net income per common share was computed as follows:

	Three Months Ended		Six Months Ended	
(In millions, except per share amounts)	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
(A) Net income	$ 100.4	$ 214.5	$ 221.6	$ 412.7
(B) Weighted average number of common shares outstanding	80.7	81.7	80.8	82.0
Dilutive shares (additional common shares issuable under stock-based awards)	.3	.4	.4	.6
(C) Weighted average number of common shares outstanding, assuming dilution	81.0	82.1	81.2	82.6
Net income per common share: (A) ÷ (B)	$ 1.24	$ 2.63	$ 2.74	$ 5.03
Net income per common share, assuming dilution: (A) ÷ (C)	$ 1.24	$ 2.61	$ 2.73	$ 5.00

Certain stock-based compensation awards were excluded from the computation of net income per common share, assuming dilution, because they would not have had a dilutive effect. Stock-based compensation awards excluded from the computation totaled 0.1 million shares for the three months ended July 1, 2023 and were not significant for the three months ended July 2, 2022. Stock-based compensation awards excluded from the computation totaled 0.1 million shares for the six months ended July 1, 2023 and were not significant for the six months ended July 2, 2022.

Note 9. Supplemental Equity and Comprehensive Income Information

Consolidated Changes in Shareholders' Equity

	Three Months Ended		Six Months Ended	
(In millions)	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Common stock issued, $1 par value per share	$ 124.1	$ 124.1	$ 124.1	$ 124.1
Capital in excess of par value				
Beginning balance	$ 850.8	$ 844.6	$ 879.3	$ 862.3
Issuance of shares under stock-based compensation plans[(1)]	.5	11.3	(28.0)	(6.4)
Ending balance	$ 851.3	$ 855.9	$ 851.3	$ 855.9
Retained earnings				
Beginning balance	$ 4,486.4	$ 4,023.2	$ 4,414.6	$ 3,880.7
Net income	100.4	214.5	221.6	412.7
Issuance of shares under stock-based compensation plans[(1)]	.8	.9	5.6	(4.9)
Contribution of shares to 401(k) plan[(1)]	4.7	4.6	11.3	10.9
Dividends	(65.4)	(61.2)	(126.2)	(117.4)
Ending balance	$ 4,526.9	$ 4,182.0	$ 4,526.9	$ 4,182.0
Treasury stock at cost				
Beginning balance	$ (3,057.4)	$ (2,799.4)	$ (3,021.8)	$ (2,659.8)
Repurchase of shares for treasury	(38.8)	(117.2)	(89.5)	(268.7)
Issuance of shares under stock-based compensation plans[(1)]	.4	.7	13.0	10.4
Contribution of shares to 401(k) plan[(1)]	1.9	1.9	4.4	4.1
Ending balance	$ (3,093.9)	$ (2,914.0)	$ (3,093.9)	$ (2,914.0)
Accumulated other comprehensive loss				
Beginning balance	$ (361.0)	$ (260.0)	$ (364.0)	$ (282.9)
Other comprehensive income (loss), net of tax	(32.2)	(51.1)	(29.2)	(28.2)
Ending balance	$ (393.2)	$ (311.1)	$ (393.2)	$ (311.1)

[(1)]We fund a portion of our employee-related costs using shares of our common stock held in treasury. We reduce capital in excess of par value based on the grant date fair value of vesting awards and record net gains or losses associated with using treasury shares to retained earnings.

Dividends per common share were as follows:

	Three Months Ended		Six Months Ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Dividends per common share	$ .81	$ .75	$ 1.56	$ 1.43

In April 2022, our Board authorized the repurchase of shares of our common stock with a fair market value of up to $750 million, excluding any fees, commissions or other expenses related to such purchases and in addition to the amount outstanding under our previous Board authorization. Board authorizations remain in effect until shares in the amount authorized thereunder have been repurchased. As of July 1, 2023, shares of our common stock in the aggregate amount of $640.6 million remained authorized for repurchase under our outstanding Board authorization.

Changes in Accumulated Other Comprehensive Loss
The changes in “Accumulated other comprehensive loss” (net of tax) for the six-month period ended July 1, 2023 were as follows:

(In millions)	Foreign Currency Translation	Pension and Other Postretirement Benefits	Cash Flow Hedges	Total
Balance as of December 31, 2022	$ (314.0)	$ (51.3)	$ 1.3	$ (364.0)
Other comprehensive income (loss) before reclassifications, net of tax	(26.9)	—	(4.0)	(30.9)
Reclassifications to net income, net of tax	—	(.4)	2.1	1.7
Other comprehensive income (loss), net of tax	(26.9)	(.4)	(1.9)	(29.2)
Balance as of July 1, 2023	$ (340.9)	$ (51.7)	$ (.6)	$ (393.2)

The changes in “Accumulated other comprehensive loss” (net of tax) for the six-month period ended July 2, 2022 were as follows:

(In millions)	Foreign Currency Translation	Pension and Other Postretirement Benefits	Cash Flow Hedges	Total
Balance as of January 1, 2022	$ (217.4)	$ (60.4)	$ (5.1)	$ (282.9)
Other comprehensive income (loss) before reclassifications, net of tax	(33.4)	—	4.6	(28.8)
Reclassifications to net income, net of tax	—	1.7	(1.1)	.6
Other comprehensive income (loss), net of tax	(33.4)	1.7	3.5	(28.2)
Balance as of July 2, 2022	$ (250.8)	$ (58.7)	$ (1.6)	$ (311.1)

Note 10. Fair Value Measurements

Recurring Fair Value Measurements
Assets and liabilities carried at fair value, measured on a recurring basis, as of July 1, 2023 were as follows:

		Fair Value Measurements Using		
(In millions)	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets				
Investments	$ 36.3	$ 19.0	$ 17.3	$ —
Derivative assets	7.3	—	7.3	—
Bank drafts	3.7	3.7	—	—
Cross-currency swap	9.7	—	9.7	—
Liabilities				
Derivative liabilities	$ 11.8	$ 1.1	$ 10.7	$ —
Contingent consideration liabilities	4.9	—	—	4.9

Assets and liabilities carried at fair value, measured on a recurring basis, as of December 31, 2022 were as follows:

		Fair Value Measurements Using		
(In millions)	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets				
Investments	$ 31.3	$ 22.6	$ 8.7	$ —
Derivative assets	4.3	—	4.3	—
Bank drafts	3.2	3.2	—	—
Cross-currency swap	15.5	—	15.5	—
Liabilities				
Derivative liabilities	$ 12.2	$ .3	$ 11.9	$ —
Contingent consideration liabilities	6.0	—	—	6.0

Investments include fixed income securities (primarily U.S. government and corporate debt securities) measured at fair value using quoted prices/bids and a money market fund measured at fair value using net asset value. As of July 1, 2023, investments of $0.8 million and $35.5 million were included in “Cash and cash equivalents” and “Other current assets,” respectively, in the unaudited Condensed Consolidated Balance Sheets. As of December 31, 2022, investments of $0.7 million and $30.6 million were included in “Cash and cash equivalents” and “Other current assets,” respectively, in the unaudited Condensed Consolidated Balance Sheets. Derivatives that are exchange-traded are measured at fair value using quoted market prices and classified within Level 1 of the valuation hierarchy. Derivatives measured based on foreign exchange rate inputs that are readily available in public markets are classified within Level 2 of the valuation hierarchy. Bank drafts (maturities greater than three months) are valued at face value due to their short-term nature and were included in “Other current assets” in the unaudited Condensed Consolidated Balance Sheets.

Contingent consideration liabilities as of July 1, 2023 relate to estimated earn-out payments associated with one of our acquisitions completed in 2022, which are subject to the respective acquired company achieving certain post-acquisition performance targets. These liabilities were recorded based on the expected payments as of July 1, 2023 and have been classified as Level 3.

In addition to the items described above, we also have made venture investments in privately held companies and utilize the measurement alternative for equity investments that do not have readily determinable fair values, measuring them at cost less impairment plus or minus observable price changes in orderly transactions. We recognized no net gains on these investments in the three or six months ended July 1, 2023. We recognized no net gains on these investments in the three months ended July 2, 2022 and recognized net gains of $3.7 million in the six months ended July 2, 2022. These investment net gains were recorded in "Other expense (income), net” in the unaudited Condensed Consolidated Income Statements. The total carrying value of our venture investments was approximately $71 million and $70 million as of July 1, 2023 and December 31, 2022, respectively, and included in “Other assets” in the unaudited Condensed Consolidated Balance Sheets.

Note 11. Commitments and Contingencies

Legal Proceedings

We are involved in various lawsuits, claims, inquiries and other regulatory and compliance matters, most of which are routine to the nature of our business. When it is probable that a loss will be incurred and where a range of the loss can be reasonably estimated, the best estimate within the range is accrued. When the best estimate within the range cannot be determined, the low end of the range is accrued. The ultimate resolution of these claims could affect future results of operations should our exposure be materially different from our estimates or should we incur liabilities that were not previously accrued. Potential insurance reimbursements are not offset against potential liabilities.

We are currently party to a litigation in which ADASA Inc. (“Adasa”), an unrelated third party, alleged that certain of our RFID products within our Solutions Group reportable segment infringed its patent. The case was filed on October 24, 2017 in the United States District Court in the District of Oregon (Eugene Division) and is captioned ADASA Inc. v. Avery Dennison Corporation. We recorded a contingent liability in the amount of $26.6 million related to this matter in the second quarter of 2021 based on a jury verdict issued on May 14, 2021.

During the fourth quarter of 2021, the first instance judgment associated with the jury verdict was issued. This resulted in additional potential liability for the RFID tags sold during the period from the jury verdict to the issuance of the first instance judgment and a royalty on additional late-disclosed tags, as well as sanctions, prejudgment interest, costs, and attorneys’ fees. In addition, Adasa was awarded an ongoing royalty on in-scope tags sold after October 14, 2021. On October 22, 2021, we appealed the judgment to the United States Court of Appeals for the Federal Circuit ("CAFC").

During the fourth quarter of 2022, the CAFC issued its opinion, reversing the grant of summary judgment of validity as to anticipation and obviousness, vacating the sanctions ruling, and remanding the case for retrial with respect to validity for anticipation and obviousness over the prior art. The CAFC affirmed subject-matter eligibility and damages if liability is determined on retrial. On remand, the trial court was required to reconsider the amount of sanctions consistent with the CAFC's instruction to limit sanctions to the late-disclosed tags. With continued evaluation of the matter and our defenses, as well as consultation with our outside counsel, we believed that Adasa's patent is invalid and that the sanctions sought by Adasa were unreasonable. In addition, we believed that there were appealable grounds in the CAFC's decision; as a result, we sought U.S. Supreme Court review on February 27, 2023.

After the U.S. Supreme Court denied our writ of certiorari petition on May 30, 2023, the trial court's retrial began on July 10, 2023. On July 18, 2023, the jury in the retrial issued a verdict that Adasa's patent is valid. Although the court has not issued its judgment, including its decision on sanctions, we increased our contingent liability to $80.4 million as of July 1, 2023 to reflect our current best estimate of the anticipated judgment. We have grounds to appeal and plan to appeal any judgment based on the jury verdict; therefore, we classified the total contingent liability as non-current due to the time expected for this matter to be fully resolved. We have largely completed our migration to alternative encoding methods for our RFID tags.

Because of the uncertainties associated with claims resolution and litigation, future expenses to resolve these matters could be higher than the liabilities we have accrued; however, we are unable to reasonably estimate a range of potential expenses. If information were to become available that allowed us to reasonably estimate a range of potential expenses determined to be probable in an amount higher or lower than what we have accrued and determined such to be probable, we would adjust our accrued liabilities accordingly. Additional lawsuits, claims, inquiries and other regulatory and compliance matters could arise in the future. The range of expenses for resolving any future matters would be assessed as they arise; until then, a range of potential expenses for such resolution cannot be determined. Based upon current information, we believe that the impact of the resolution of these matters would not be, individually or in the aggregate, material to our financial position, results of operations or cash flows.

Environmental Expenditures

Environmental expenditures are generally expensed. When it is probable that a loss will be incurred and where a range of the loss can be reasonably estimated, the best estimate within the range is accrued. When the best estimate within the range cannot be determined, the low end of the range is accrued. The ultimate resolution of these matters could affect future results of operations should our exposure be materially different from our estimates or should we incur liabilities that were not previously accrued. Potential insurance reimbursements are not offset against potential liabilities. We review our estimates of the costs of complying with environmental laws related to remediation and cleanup of various sites, including sites in which governmental agencies have designated us as a potentially responsible party ("PRP"). However, environmental expenditures for newly acquired assets and those that extend or improve the economic useful life of existing assets are capitalized and amortized over the shorter of the estimated useful life of the acquired asset or the remaining life of the existing asset.

As of July 1, 2023, we have been designated by the U.S. Environmental Protection Agency ("EPA") and/or other responsible state agencies as a PRP at eleven waste disposal or waste recycling sites that are the subject of separate investigations or proceedings concerning alleged soil and/or groundwater contamination. No settlement of our liability related to any of these sites has been agreed upon. We are participating with other PRPs at these sites and anticipate that our share of remediation costs will be determined pursuant to agreements that we negotiate with the EPA or other governmental authorities.

These estimates could change as a result of changes in planned remedial actions, remediation technologies, site conditions, the estimated time to complete remediation, environmental laws and regulations, and other factors. Because of the uncertainties associated with environmental assessment and remediation activities, our future expenses to remediate these sites could be higher than the liabilities we have accrued; however, we are unable to reasonably estimate a range of potential expenses determined to be probable. If information were to become available that allowed us to reasonably estimate a range of potential expenses in an amount higher or lower than what we have accrued, we would adjust our environmental liabilities accordingly. In addition, we may be identified as a PRP at additional sites in the future. The range of expenses for remediation of any future-identified sites would be addressed as they arise; until then, a range of expenses for such remediation cannot be determined.

The activity related to our environmental liabilities for the six months ended July 1, 2023 is shown below.

(In millions)		
Balance at December 31, 2022	$	24.3
Charges, net of reversals		(.2)
Payments		(1.2)
Balance at July 1, 2023	$	22.9

Approximately $10 million and $9 million, respectively, of this balance was classified as short-term and included in "Other current liabilities" in the unaudited Condensed Consolidated Balance Sheets as of July 1, 2023 and December 31, 2022.

Note 12. Segment and Disaggregated Revenue Information

Disaggregated Revenue Information

Disaggregated revenue information is shown below in the manner that best reflects how the nature, amount, timing and uncertainty of our revenue and cash flows are affected by economic factors. Revenue from our Materials Group reportable segment is attributed to geographic areas based on the location from which products are shipped. Revenue from our Solutions Group reportable segment is shown by product group.

	Three Months Ended		Six Months Ended	
(In millions)	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Net sales to unaffiliated customers				
Materials Group:				
U.S.	$ 430.7	$ 491.1	$ 877.1	$ 979.9
Europe	510.3	645.2	1,009.2	1,267.9
Asia	338.1	344.3	653.7	705.5
Latin America	117.2	118.7	230.9	228.5
Other international	79.7	90.2	165.6	178.0
Total Materials Group	1,476.0	1,689.5	2,936.5	3,359.8
Solutions Group:				
Apparel	398.9	486.7	817.7	1,001.3
Identification Solutions and Vestcom	215.6	170.8	401.3	335.2
Total Solutions Group	614.5	657.5	1,219.0	1,336.5
Net sales to unaffiliated customers	$ 2,090.5	$ 2,347.0	$ 4,155.5	$ 4,696.3

Additional Segment Information

Additional financial information by reportable segment and Corporate is shown below.

	Three Months Ended		Six Months Ended	
(In millions)	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Intersegment sales				
Materials Group	$ 38.2	$ 31.8	$ 73.1	$ 64.3
Solutions Group	10.0	8.1	20.0	19.1
Intersegment sales	$ 48.2	$ 39.9	$ 93.1	$ 83.4
Income before taxes				
Materials Group	$ 193.8	$ 246.7	$ 354.3	$ 469.5
Solutions Group	(7.2)	84.6	44.3	174.9
Corporate expense	(21.1)	(23.9)	(43.0)	(49.1)
Interest expense	(31.9)	(20.8)	(58.3)	(40.4)
Other non-operating expense (income), net	6.6	1.3	11.2	2.7
Income before taxes	$ 140.2	$ 287.9	$ 308.5	$ 557.6
Other expense (income), net, by reportable segment and Corporate				
Materials Group	$ 6.1	$ .6	$ 20.4	$ (2.6)
Solutions Group	62.2	1.3	65.8	2.9
Corporate	—	1.5	(.1)	1.5
Other expense (income), net	$ 68.3	$ 3.4	$ 86.1	$ 1.8

Other expense (income), net, by type were as follows:

	Three Months Ended		Six Months Ended	
(In millions)	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Other expense (income), net, by type				
Restructuring charges:				
Severance and related costs	$ 8.8	$ 3.1	$ 25.9	$ 4.0
Asset impairment charges	1.2	—	1.7	—
Other items:				
Outcomes of legal proceedings	53.8	.7	53.8	1.7
Transaction and related costs	4.0	.1	4.2	.3
(Gain) loss on sales of assets	.5	(.5)	.5	(.5)
Gain on venture investment	—	—	—	(3.7)
Other expense (income), net	$ 68.3	$ 3.4	$ 86.1	$ 1.8

Note 13. Supplemental Financial Information

Inventories

The table below summarizes amounts in inventories.

(In millions)	July 1, 2023	December 31, 2022
Raw materials	$ 444.4	$ 457.6
Work-in-progress	235.1	255.1
Finished goods	311.0	297.2
Inventories	$ 990.5	$ 1,009.9

Property, Plant and Equipment, Net

The table below summarizes the amounts in property, plant and equipment, net.

(In millions)	July 1, 2023	December 31, 2022
Property, plant and equipment	$ 3,829.7	$ 3,747.7
Accumulated depreciation	(2,262.7)	(2,207.5)
Property, plant and equipment, net	$ 1,567.0	$ 1,540.2

Allowance for Credit Losses

The activity related to our allowance for credit losses is shown below.

	Six Months Ended	
(In millions)	July 1, 2023	July 2, 2022
Beginning balance	$ 34.4	$ 33.0
Provision for credit losses	—	5.7
Amounts written off	(3.0)	(1.9)
Other, including foreign currency translation	.9	(1.2)
Ending balance	$ 32.3	$ 35.6

Supplier Finance Programs

We have agreements with third-party financial institutions to facilitate payments to suppliers. These third-party financial institutions offer voluntary supply chain finance programs that enable certain of our suppliers, at the supplier's sole discretion, to sell our payment obligations to a financial institution on terms directly negotiated with the financial institution. Participating suppliers decide which payment obligations are sold to the financial institution and we have no economic interest in a supplier's decision to sell these payment obligations. We make payments to the financial institution on the invoice due date, regardless of whether an individual invoice is sold by the supplier to the financial institution. Our obligations to our suppliers, including amounts due and scheduled payment dates, are not impacted by suppliers' decisions to sell amounts under these arrangements. Amounts due under our supply chain finance programs are included in accounts payable on our unaudited Condensed Consolidated Balance Sheets and activities related to these programs are presented as operating activities in our unaudited Condensed Consolidated Statements of Cash Flows. As of July 1, 2023 and December 31, 2022, the amounts due to financial institutions for suppliers that participate in these programs were $354.9 million and $430.1 million, respectively.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations, or MD&A, provides management's views on our financial condition and results of operations and should be read in conjunction with the accompanying unaudited Condensed Consolidated Financial Statements and related notes.

NON-GAAP FINANCIAL MEASURES

We report our financial results in conformity with accounting principles generally accepted in the United States of America, or GAAP, and also communicate with investors using certain non-GAAP financial measures. These non-GAAP financial measures are not in accordance with, nor are they a substitute for or superior to, the comparable GAAP financial measures. These non-GAAP financial measures are intended to supplement the presentation of our financial results prepared in accordance with GAAP. Based on feedback from investors and financial analysts, we believe that the supplemental non-GAAP financial measures we provide are useful to their assessments of our performance and operating trends, as well as liquidity.

Our non-GAAP financial measures exclude the impact of certain events, activities or strategic decisions. The accounting effects of these events, activities or decisions, which are included in the GAAP financial measures, may make it more difficult to assess our underlying performance in a single period. By excluding the accounting effects, positive or negative, of certain items (e.g., restructuring charges, outcomes of certain legal proceedings, certain effects of strategic transactions and related costs, losses from debt extinguishments, gains or losses from curtailment or settlement of pension obligations, gains or losses on sales of certain assets, gains or losses on venture investments and other items), we believe that we are providing meaningful supplemental information that facilitates an understanding of our core operating results and liquidity measures. While some of the items we exclude from GAAP financial measures recur, they tend to be disparate in amount, frequency or timing.

We use these non-GAAP financial measures internally to evaluate trends in our underlying performance, as well as to facilitate comparison to the results of competitors for quarters and year-to-date periods, as applicable.

We use the non-GAAP financial measures described below in this MD&A.

- *Sales change ex. currency* refers to the increase or decrease in net sales, excluding the estimated impact of foreign currency translation and the reclassification of sales between segments, and, where applicable, an extra week in our fiscal year and the calendar shift resulting from the extra week in the prior fiscal year, and currency adjustment for transitional reporting of highly inflationary economies. The estimated impact of foreign currency translation is calculated on a constant currency basis, with prior period results translated at current period average exchange rates to exclude the effect of currency fluctuations.
- *Organic sales change* refers to sales change ex. currency, excluding the estimated impact of acquisitions and product line divestitures.

We believe that sales change ex. currency and organic sales change assist investors in evaluating the sales change from the ongoing activities of our businesses and enhance their ability to evaluate our results from period to period.

- *Adjusted free cash flow* refers to cash flow provided by operating activities, less payments for property, plant and equipment, software and other deferred charges, plus proceeds from sales of property, plant and equipment, plus (minus) net proceeds from insurance and sales (purchases) of investments. Adjusted free cash flow is also adjusted for, where applicable, certain acquisition-related transaction costs. We believe that adjusted free cash flow assists investors by showing the amount of cash we have available for debt reductions, dividends, share repurchases and acquisitions.

- *Operational working capital as a percentage of annualized current quarter net sales* refers to trade accounts receivable and inventories, net of accounts payable, and excludes cash and cash equivalents, short-term borrowings, deferred taxes, other current assets and other current liabilities, as well as net current assets or liabilities held-for-sale divided by annualized current quarter net sales. We believe that operational working capital as a percentage of annualized current quarter net sales assists investors in assessing our working capital requirements because it excludes the impact of fluctuations attributable to our financing and other activities (which affect cash and cash equivalents, deferred taxes, other current assets and other current liabilities) that tend to be disparate in amount, frequency or timing, and may increase the volatility of working capital as a percentage of sales from period to period. The items excluded from this measure are not significantly influenced by our day-to-day activities managed at the operating level and do not necessarily reflect the underlying trends in our operations.

OVERVIEW AND OUTLOOK

Net Sales

The factors impacting reported net sales change, as compared to the prior-year period, are shown in the table below.

	Three Months Ended July 1, 2023	Six Months Ended July 1, 2023
Reported net sales change	(11)%	(12)%
Foreign currency translation	1	2
Sales change ex. currency[1]	(10)	(9)
Acquisitions	(1)	(1)
Organic sales change[1]	(10)%	(10)%

[1] Totals may not sum due to rounding

In the three and six months ended July 1, 2023, net sales decreased on an organic basis compared to the same period in the prior year primarily due to lower sales volume, partially offset by pricing actions.

Net Income

Net income decreased from approximately $413 million in the first six months of 2022 to approximately $222 million in the first six months of 2023. Major factors affecting the change in net income included the following:

- Lower sales volume primarily driven by inventory destocking
- Increased accrual for a legacy legal matter
- Higher restructuring charges
- Unfavorable foreign currency translation

Offsetting factors:
- Benefits from productivity initiatives, including temporary cost-saving actions, material re-engineering and savings from restructuring actions, net of transition costs
- Lower provision for income taxes
- The net benefit of pricing and raw material costs

Business Acquisitions

On May 22, 2023, we completed our business acquisition of LG Group, Inc. ("Lion Brothers"), a Maryland-based designer and manufacturer of apparel brand embellishments. On March 6, 2023, we completed our business acquisition of Thermopatch, Inc. ("Thermopatch"), a New York-based manufacturer specializing in labeling, embellishments and transfers for the sports, industrial laundry, workwear and hospitality industries. These acquisitions enhance the product portfolio in our Solutions Group reportable segment.

The acquisitions of Lion Brothers and Thermopatch are referred to collectively as the "2023 Acquisitions."

The aggregate purchase consideration, including purchase consideration payable, for the 2023 Acquisitions was approximately $205 million. We funded the 2023 Acquisitions using cash and commercial paper borrowings.

The 2023 Acquisitions were not material, individually or in the aggregate, to the unaudited Condensed Consolidated Financial Statements.

Refer to Note 2, “Business Acquisitions,” to the unaudited Condensed Consolidated Financial Statements for more information.

Cost Reduction Actions

2023 Actions
During the six months ended July 1, 2023, we recorded $28.6 million in restructuring charges related to our 2023 actions. These charges consisted of severance and related costs for the reduction of approximately 700 positions at numerous locations across our company. These actions, which were primarily taken in our Materials Group reportable segment, largely related to headcount reductions.

Restructuring charges were included in “Other expense (income), net” in the unaudited Condensed Consolidated Statements of Income. Refer to Note 5, “Cost Reduction Actions,” to the unaudited Condensed Consolidated Financial Statements for more information.

Cash Flow

(In millions)	Six Months Ended July 1, 2023	July 2, 2022
Net cash provided by operating activities	$ 191.5	$ 394.4
Purchases of property, plant and equipment	(115.9)	(106.8)
Purchases of software and other deferred charges	(11.0)	(9.9)
Proceeds from sales of property, plant and equipment	.3	2.1
Proceeds from insurance and sales (purchases) of investments, net	(1.2)	2.0
Payments for certain acquisition-related transaction costs	—	.6
Adjusted free cash flow	$ 63.7	$ 282.4

During the first six months of 2023, net cash provided by operating activities decreased compared to the same period last year primarily due to lower net income and higher tax payments, partially offset by changes in operational working capital and lower incentive compensation payments. During the first six months of 2023, adjusted free cash flow decreased compared to the same period last year primarily due to a decrease in net cash provided by operating activities and an increase in purchases of property, plant and equipment.

Outlook

Certain factors that we believe may contribute to our 2023 results are described below.

- We expect the impact of unfavorable foreign currency translation to reduce operating income by approximately $15 million.
- We expect incremental savings from restructuring actions, net of transition costs, of approximately $65 million.
- We expect our full year effective tax rate to be in the mid-twenty percent range.
- We expect fixed and IT capital expenditures of less than $325 million.

ANALYSIS OF RESULTS OF OPERATIONS FOR THE SECOND QUARTER

Income Before Taxes

(In millions, except percentages)	Three Months Ended July 1, 2023	July 2, 2022
Net sales	$ 2,090.5	$ 2,347.0
Cost of products sold	1,537.1	1,703.5
Gross profit	553.4	643.5
Marketing, general and administrative expense	319.6	332.7
Other expense (income), net	68.3	3.4
Interest expense	31.9	20.8
Other non-operating expense (income), net	(6.6)	(1.3)
Income before taxes	$ 140.2	$ 287.9
Gross profit margin	26.5 %	27.4 %

Gross Profit Margin
Gross profit margin for the second quarter of 2023 decreased from the same period last year due to lower volume, partially offset by benefits from productivity initiatives, including temporary cost-saving actions, material re-engineering and savings from restructuring actions, net of transition costs.

Marketing, General and Administrative Expense
Marketing, general and administrative expense decreased in the second quarter of 2023 compared to the same period last year primarily due to the benefits from productivity initiatives, including temporary cost-saving actions and savings from restructuring actions, net of transition costs, partially offset by growth investments.

Other Expense (Income), Net

(In millions)	Three Months Ended July 1, 2023	July 2, 2022
Other expense (income), net, by type		
Restructuring charges:		
Severance and related costs	$ 8.8	$ 3.1
Asset impairment charges	1.2	—
Other items:		
Outcomes of legal proceedings	53.8	.7
Transaction and related costs	4.0	.1
(Gain) loss on sales of assets, net	.5	(.5)
Other expense (income), net	$ 68.3	$ 3.4

Refer to Note 5, "Cost Reduction Actions," to the unaudited Condensed Consolidated Financial Statements for more information regarding restructuring charges. Refer to Note 11, "Commitments and Contingencies," to the unaudited Condensed Consolidated Financial Statements for more information regarding outcomes of legal proceedings.

Interest Expense

Interest expense increased in the second quarter of 2023 compared to the same period last year primarily as a result of higher interest rates on borrowings and higher debt levels.

Net Income and Earnings per Share

(In millions, except per share amounts and percentages)	Three Months Ended July 1, 2023	July 2, 2022
Income before taxes	$ 140.2	$ 287.9
Provision for income taxes	39.8	73.4
Net income	$ 100.4	$ 214.5
Per share amounts:		
Net income per common share	$ 1.24	$ 2.63
Net income per common share, assuming dilution	1.24	2.61
Effective tax rate	28.4 %	25.5 %

Provision for Income Taxes

Our effective tax rate for the three months ended July 1, 2023 increased compared to the same period last year primarily due to higher non-deductible expenses resulting from foreign currency and interest rate fluctuations, as well as lower tax incentives in certain foreign jurisdictions and lower discrete benefits from changes in certain tax reserves. Refer to Note 7, "Taxes Based on Income," to the unaudited Condensed Consolidated Financial Statements for more information.

RESULTS OF OPERATIONS BY REPORTABLE SEGMENT FOR THE SECOND QUARTER

Operating income refers to income before taxes, interest and other non-operating expense (income), net.

Materials Group

(In millions)	Three Months Ended July 1, 2023	July 2, 2022
Net sales including intersegment sales	$ 1,514.2	$ 1,721.3
Less intersegment sales	(38.2)	(31.8)
Net sales	$ 1,476.0	$ 1,689.5
Operating income[(1)]	193.8	246.7
[(1)]Included charges associated with loss on sales of assets in 2023 and restructuring actions in both years.	$ 6.1	$ .6

Net Sales
The factors impacting reported net sales change are shown in the table below.

	Three Months Ended July 1, 2023
Reported net sales change	(13)%
Foreign currency translation	1
Sales change ex. currency[(1)]	(12)
Organic sales change[(1)]	(12)%

[(1)] Totals may not sum due to rounding.

In the second quarter of 2023, net sales decreased on an organic basis compared to the same period in the prior year mainly due to lower volume primarily driven by inventory destocking, partially offset by pricing actions. On an organic basis, net sales decreased, by a low double-digit rate in North America, over 20% in Western Europe and a mid-single digit rate in emerging markets.

Operating Income
Operating income decreased in the second quarter of 2023 compared to the same period last year primarily due to lower volume, partially offset by benefits from productivity initiatives, including temporary cost-saving actions, material re-engineering and savings from restructuring actions, net of transition costs.

Solutions Group

	Three Months Ended	
(In millions)	July 1, 2023	July 2, 2022
Net sales including intersegment sales	$ 624.5	$ 665.6
Less intersegment sales	(10.0)	(8.1)
Net sales	$ 614.5	$ 657.5
Operating (loss) income[(1)]	(7.2)	84.6
[(1)]Included charges associated with outcomes of legal proceedings in 2023, restructuring actions and transaction and related costs in both years and gain on sales of assets in 2022.	$ 62.2	$ 1.3

Net Sales
The factors impacting reported net sales change are shown in the table below.

	Three Months Ended July 1, 2023
Reported net sales change	(7)%
Foreign currency translation	2
Sales change ex. currency[(1)]	(4)
Acquisitions	(3)
Organic sales change[(1)]	(7)%

[(1)] Totals may not sum due to rounding.

In the second quarter of 2023, on an organic basis, the increase in sales by a low-single digit rate in high value categories was more than offset by a high-teens rate decrease in the base business. Company-wide, on an organic basis, sales of Intelligent Label solutions were comparable to prior year.

Operating Income
Operating income decreased in the second quarter of 2023 compared to the same period last year primarily due to an increased accrual for the *Adasa* legal matter, lower volume and higher growth investments, partially offset by benefits from productivity initiatives, including temporary cost-saving actions, and savings from restructuring actions, net of transition costs.

ANALYSIS OF RESULTS OF OPERATIONS FOR THE SIX MONTHS YEAR-TO-DATE

Income Before Taxes

	Six Months Ended	
(In millions, except percentages)	July 1, 2023	July 2, 2022
Net sales	$ 4,155.5	$ 4,696.3
Cost of products sold	3,059.8	3,411.5
Gross profit	1,095.7	1,284.8
Marketing, general and administrative expense	654.0	687.7
Other expense (income), net	86.1	1.8
Interest expense	58.3	40.4
Other non-operating expense (income), net	(11.2)	(2.7)
Income before taxes	$ 308.5	$ 557.6
Gross profit margin	26.4 %	27.4 %

Gross Profit Margin
Gross profit margin for the first six months of 2023 decreased from the same period last year primarily due to lower volume and higher employee-related costs, partially offset by benefits from productivity initiatives, temporary cost-saving actions, material re-engineering and savings from restructuring actions, net of transition costs.

Marketing, General and Administrative Expense
Marketing, general and administrative expense decreased in the first six months of 2023 compared to the same period last year primarily due to benefits from productivity initiatives, including temporary cost-saving actions, savings from restructuring actions, net of transition costs, and the impact of favorable foreign currency translation, partially offset by growth investments.

Other Expense (Income), Net

	Six Months Ended	
(In millions)	July 1, 2023	July 2, 2022
Other expense (income), net, by type		
Restructuring charges:		
Severance and related costs	$ 25.9	$ 4.0
Asset impairment charges	1.7	—
Other items:		
Outcomes of legal proceedings	53.8	1.7
Transaction and related costs	4.2	.3
(Gain) loss on sales of assets	.5	(.5)
Gain on venture investment	—	(3.7)
Other expense (income), net	$ 86.1	$ 1.8

Refer to Note 5, “Cost Reduction Actions,” to the unaudited Condensed Consolidated Financial Statements for more information regarding restructuring charges. Refer to Note 11, “Commitments and Contingencies,” to the unaudited Condensed Consolidated Financial Statements for more information regarding outcomes of legal proceedings.

Interest Expense
Interest expense increased in the first six months of 2023 compared to the same period last year primarily as a result of higher interest rates on borrowings and higher debt levels.

Net Income and Earnings per Share

(In millions, except per share amounts and percentages)	Six Months Ended July 1, 2023	Six Months Ended July 2, 2022
Income before taxes	$ 308.5	$ 557.6
Provision for income taxes	86.9	144.9
Net income	$ 221.6	$ 412.7
Per share amounts:		
Net income per common share	$ 2.74	$ 5.03
Net income per common share, assuming dilution	2.73	5.00
Effective tax rate	28.2 %	26.0 %

Provision for Income Taxes
Our effective tax rate for the six months ended July 1, 2023 increased compared to the same period last year primarily due to higher non-deductible expenses resulting from foreign currency and interest rate fluctuations, as well as lower tax incentives in certain foreign jurisdictions and lower discrete benefits from changes in certain tax reserves. Refer to Note 7, “Taxes Based on Income,” to the unaudited Condensed Consolidated Financial Statements for more information.

Our effective tax rate can vary from quarter to quarter due to a variety of factors, such as changes in the mix of earnings in countries with differing statutory tax rates, changes in tax reserves, settlements of income tax audits, changes in tax laws and regulations, return-to-provision adjustments, tax impacts related to stock-based payments and execution of tax planning strategies.

RESULTS OF OPERATIONS BY REPORTABLE SEGMENT FOR THE SIX MONTHS YEAR-TO-DATE

Operating income refers to income before taxes, interest and other non-operating expense (income), net.

Materials Group

(In millions)	Six Months Ended July 1, 2023	Six Months Ended July 2, 2022
Net sales including intersegment sales	$ 3,009.6	$ 3,424.1
Less intersegment sales	(73.1)	(64.3)
Net sales	$ 2,936.5	$ 3,359.8
Operating income[(1)]	354.3	469.5
[(1)]Included loss on sales of assets in 2023, charges associated with restructuring actions in both years and gain on venture investment in 2022	$ 20.4	$ (2.6)

Net Sales
The factors impacting reported net sales change are shown in the table below.

	Six Months Ended July 1, 2023
Reported net sales change	(13)%
Foreign currency translation	2
Sales change ex. currency[(1)]	(11)
Organic sales change[(1)]	(11)%

[(1)] Totals may not sum due to rounding

In the first six months of 2023, net sales decreased on an organic basis compared to the same period in the prior year mainly due to lower volume driven primarily by inventory destocking, partially offset by pricing actions. On an organic basis, net sales decreased by a high single-digit rate in North America, approximately 20% in Western Europe and a mid-single digit rate in emerging markets.

Operating Income
Operating income decreased in the first six months of 2023 compared to the same period last year primarily due to lower volume, partially offset by benefits from productivity initiatives, including temporary cost-saving actions, material re-engineering and savings from restructuring actions, net of transition costs, and lower raw material costs.

Solutions Group

(In millions)		Six Months Ended July 1, 2023		July 2, 2022
Net sales including intersegment sales	$	1,239.0	$	1,355.6
Less intersegment sales		(20.0)		(19.1)
Net sales	$	1,219.0	$	1,336.5
Operating income[(1)]		44.3		174.9
[(1)] Included charges associated with restructuring actions, outcomes of legal proceedings, and transaction and related costs in both years and gain on sales of assets in 2022	$	65.8	$	2.9

Net Sales
The factors impacting reported net sales change are shown in the table below.

	Six Months Ended July 1, 2023
Reported net sales change	(9)%
Foreign currency translation	3
Sales change ex. currency[(1)]	(6)
Acquisitions	(2)
Organic sales change[(1)]	(8)%

[(1)]Totals may not sum due to rounding

In the first six months of 2023, on an organic basis, the increase in sales by a low-single digit rate in high value categories was more than offset by a high-teens rate decrease in the base business. Company-wide, on an organic basis, sales of Intelligent Label solutions were comparable to prior year.

Operating Income
Operating income decreased in the first six months of 2023 compared to the same period last year primarily due to lower volume, an increased accrual for the *Adasa* legal matter, higher growth investments and the impact of unfavorable foreign currency translation, partially offset by benefits from productivity initiatives, including temporary cost-saving actions, and savings from restructuring actions, net of transition costs.

FINANCIAL CONDITION

Liquidity

Operating Activities

(In millions)		Six months ended July 1, 2023		July 2, 2022
Net income	$	221.6	$	412.7
Depreciation		91.5		88.2
Amortization		54.8		57.0
Provision for credit losses and sales returns		18.9		23.9
Stock-based compensation		12.2		23.9
Deferred taxes and other non-cash taxes		(17.5)		8.6
Other non-cash expense and loss (income and gain), net		17.0		15.0
Changes in assets and liabilities and other adjustments		(207.0)		(234.9)
Net cash provided by operating activities	$	191.5	$	394.4

During the first six months of 2023, net cash provided by operating activities decreased compared to the same period last year primarily due to lower net income and higher tax payments, partially offset by changes in operational working capital and lower incentive compensation payments.

Investing Activities

(In millions)	Six months ended July 1, 2023	July 2, 2022
Purchases of property, plant and equipment	$ (115.9)	$ (106.8)
Purchases of software and other deferred charges	(11.0)	(9.9)
Proceeds from sales of property, plant and equipment	.3	2.1
Proceeds from insurance and sales (purchases) of investments, net	(1.2)	2.0
Payments for acquisitions, net of cash acquired, and venture investments	(194.1)	(37.0)
Net cash used in investing activities	$ (321.9)	$ (149.6)

Purchases of Property, Plant and Equipment
During the first six months of 2023, in our Solutions Group reportable segment, we primarily invested in buildings and equipment to support growth in the U.S., in certain countries in Latin America, primarily Mexico, and in certain counties in Asia, primarily Malaysia; in our Materials Group reportable segment, we primarily invested in buildings and equipment in the U.S. and in certain countries in Europe, primarily France. During the first six months of 2022, we primarily invested in buildings and equipment to support growth in the U.S., in certain countries in Europe, including France and Luxembourg, and in certain countries in Latin America, primarily Brazil, for our Materials Group reportable segment; in our Solutions Group reportable segment, these investments were made in certain countries in Asia, including Malaysia, China and Vietnam, and in the U.S.

Purchases of Software and Other Deferred Charges
During the first six months of 2023 and 2022, we primarily invested in information technology upgrades in the U.S.

Payments for Acquisitions, Net of Cash Acquired, and Venture Investments
During the first six months of 2023, we paid consideration, net of cash acquired, of approximately $194 million for the 2023 Acquisitions. We funded the 2023 Acquisitions using cash and commercial paper borrowings. During the first six months of 2022, we paid consideration, net of cash acquired, of approximately $30 million for the acquisitions of TexTrace AG ("TexTrace") and Rietveld Serigrafie B.V. and Rietveld Screenprinting Serigrafi Baski Matbaa Tekstil Ithalat Ihracat Sanayi ve Ticaret Limited Sirketi ("Rietveld"). We funded the TexTrace and Rietveld acquisitions using cash and commercial paper borrowings. We also made certain venture investments in the first six months of 2022.

Financing Activities

(In millions)	Six months ended July 1, 2023	July 2, 2022
Net increase (decrease) in borrowings with maturities of three months or less	$ 281.8	$ 176.9
Additional long-term borrowings	394.9	—
Repayments of long-term debt and finance leases	(252.6)	(3.4)
Dividends paid	(126.2)	(117.4)
Share repurchases	(89.5)	(268.7)
Net (tax withholding) proceeds related to stock-based compensation	(23.7)	(25.1)
Other	(1.6)	—
Net cash provided by (used in) financing activities	$ 183.1	$ (237.7)

Borrowings and Repayment of Debt
During the first six months of 2023 and 2022, our commercial paper borrowings were used to fund acquisitions, dividend payments, share repurchases, capital expenditures and other general corporate purposes.

In March 2023, we issued $400 million of senior notes, due March 15, 2033, which bear an interest rate of 5.750% per year, payable semiannually in arrears. Our net proceeds from this issuance, after deducting underwriting discounts and offering expenses, were $394.9 million, which we used to repay both existing indebtedness under our commercial paper programs and our $250 million aggregate principal amount of senior notes that matured on April 15, 2023.

Refer to Note 2, “Business Acquisitions,” and Note 4, “Debt,” to the unaudited Condensed Consolidated Financial Statements for more information.

Dividends Paid
We paid dividends of $1.56 per share in the first six months of 2023 compared to $1.43 per share in the same period last year. In April 2023, we increased our quarterly dividend rate to $0.81 per share, representing an increase of approximately 8% from our previous quarterly dividend rate of $0.75 per share.

Share Repurchases
During the first six months of 2023 and 2022, we repurchased approximately 0.5 million and 1.5 million shares of our common stock, respectively.

Long-lived Assets
In the six months ended July 1, 2023, goodwill increased by approximately $123 million to $1.99 billion, reflecting the preliminary goodwill associated with the 2023 Acquisitions and the impact of foreign currency translation.

In the six months ended July 1, 2023, other intangibles resulting from business acquisitions, net, increased by approximately $44 million to $883.8 million, reflecting the preliminary valuation of the intangible assets associated with the 2023 Acquisitions, partially offset by current year amortization expense and the impact of foreign currency translation.

Refer to Note 3, “Goodwill and Other Intangibles Resulting from Business Acquisitions,” to the unaudited Condensed Consolidated Financial Statements for more information.

Shareholders’ Equity Accounts
As of July 1, 2023, the balance of our shareholders’ equity was $2.02 billion. Refer to Note 9, “Supplemental Equity and Comprehensive Income Information,” to the unaudited Condensed Consolidated Financial Statements for more information.

Impact of Foreign Currency Translation

(In millions)		**Six Months Ended July 1, 2023**
Change in net sales	$	(114)

International operations generated approximately 69% of our net sales during the six months ended July 1, 2023. Our future results are subject to changes in political and economic conditions globally and in the regions in which we operate and the impact of fluctuations in foreign currency exchange and interest rates.

The unfavorable impact of foreign currency translation on net sales in the first six months of 2023 compared to the same period last year was primarily related to sales in China and euro-denominated sales.

Effect of Foreign Currency Transactions

The impact on net income from transactions denominated in foreign currencies is largely mitigated because the costs of our products are generally denominated in the same currencies in which they are sold. In addition, to reduce our income and cash flow exposure to transactions in foreign currencies, we enter into foreign exchange forward, option and swap contracts where available and appropriate. Refer to Note 6, “Financial Instruments,” to the unaudited Condensed Consolidated Financial Statements for more information.

Analysis of Selected Financial Ratios

We utilize the financial ratios discussed below to assess our financial condition and operating performance. We believe this information assists our investors in understanding the factors impacting our cash flow other than net income and capital expenditures.

Operational Working Capital Ratio
Operational working capital, as a percentage of annualized current-quarter net sales, is reconciled to working capital (deficit) below. Our objective is to minimize our investment in operational working capital, as a percentage of annualized current-quarter net sales, to

maximize cash flow and return on investment. As shown below, operational working capital, as a percentage of annualized current-quarter net sales, in the second quarter of 2023 was higher compared to the second quarter of 2022.

(In millions, except percentages)		July 1, 2023		July 2, 2022
(A) Working capital (deficit)	$	242.3	$	(51.7)
Reconciling items:				
Cash and cash equivalents		(217.1)		(164.8)
Other current assets		(228.2)		(228.8)
Short-term borrowings and current portion of long-term debt and finance leases		635.8		738.6
Accrued payroll and employee benefits and other current liabilities		738.1		851.0
(B) Operational working capital	$	1,170.9	$	1,144.3
(C) Second-quarter net sales, annualized	$	8,362.0	$	9,388.0
Operational working capital, as a percentage of annualized current-quarter net sales: (B) ÷ (C)		14.0 %		12.2 %

Accounts Receivable Ratio
The average number of days sales outstanding was 62 days in the second quarter of 2023 compared to 61 days in second quarter of 2022, calculated using the accounts receivable balance at quarter-end divided by the average daily sales in the respective quarter. The increase is days sales outstanding primarily reflected the impact of foreign currency translation.

Inventory Ratio
Average inventory turnover was 6.2 in the second quarter of 2023 compared to 6.9 in the second quarter of 2022, calculated using the annualized second-quarter cost of products sold in 2023 and 2022, respectively, and divided by the inventory balance at quarter-end. The decrease in average inventory turnover primarily reflected the impact of lower sales due to customer destocking as well as strategic inventory builds.

Accounts Payable Ratio
The average number of days payable outstanding was 73 days in the second quarter of 2023 compared to 75 days in the second quarter of 2022, calculated using the accounts payable balance at quarter-end divided by the respective annualized second-quarter cost of products sold. The decrease in average number of days payable outstanding primarily reflected lower accounts payable balances due to customer destocking, partially offset by the impact of foreign currency translation.

Capital Resources

Capital resources include cash flows from operations, cash and cash equivalents and debt financing, including access to commercial paper borrowings supported by our $1.20 billion revolving credit facility (the "Revolver"). We use these resources to fund our operational needs.

In January 2023, we extended the maturity date of the Revolver by one year to February 13, 2026 and increased the commitments by $400 million, from $800 million to $1.20 billion.

As of July 1, 2023, we had cash and cash equivalents of $217.1 million held in accounts at third-party financial institutions. Our cash balances are held in numerous locations around the world. As of July 1, 2023, the majority of our cash and cash equivalents was held by our foreign subsidiaries, primarily in the Asia Pacific region.

To meet our U.S. cash requirements, we have several cost-effective liquidity options available. These options include borrowing funds at reasonable rates, including borrowings from foreign subsidiaries, and repatriating foreign earnings and profits. However, if we were to repatriate foreign earnings and profits, a portion would be subject to cash payments of withholding taxes imposed by foreign tax authorities. Additional U.S. taxes may also result from the impact of foreign currency fluctuations related to these earnings and profits.

The Revolver, which matures in February 2026, is used as a back-up facility for our commercial paper borrowings and can be used for other corporate purposes. No balance was outstanding under the Revolver as of July 1, 2023 or December 31, 2022.

Capital from Debt
The carrying value of our total debt increased by approximately $443 million in the first six months of 2023 to $3.55 billion, primarily reflecting our $400 million of senior notes issuance in March 2023 and a net increase in commercial paper borrowings.

Credit ratings are a significant factor in our ability to raise short- and long-term financing. The credit ratings assigned to us also impact the interest rates we pay and our access to commercial paper, credit facilities and other borrowings. A downgrade of our short-term credit ratings could impact our ability to access commercial paper markets. If our access to commercial paper markets were to become limited, we believe that the Revolver and our other credit facilities would be available to meet our short-term funding requirements. When determining a credit rating, we believe that rating agencies primarily consider our competitive position, business outlook, consistency of cash flows, debt level and liquidity, geographic dispersion and management team. We remain committed to maintaining an investment grade rating.

Off-Balance Sheet Arrangements, Contractual Obligations, and Other Matters

Refer to Note 11, “Commitments and Contingencies,” to the unaudited Condensed Consolidated Financial Statements for further information. Except as indicated therein, we have no material off-balance sheet arrangements as described in Item 303(b) of Regulation S-K.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to the information provided in Part II, Item 7A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 that have not been disclosed in our periodic filings with the U.S. Securities and Exchange Commission (SEC).

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(f)) that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding the required disclosure.

In designing and evaluating the disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Our disclosure controls system is based upon a global chain of financial and general business reporting lines that converge in our headquarters in Mentor, Ohio. As required by SEC Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the quarter covered by this report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of such time to provide reasonable assurance that information was recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information was accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding the required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Refer to “Legal Proceedings” in Note 11, “Commitments and Contingencies,” to the unaudited Condensed Consolidated Financial Statements in Part 1, Item 1 for this information.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors included in Part I, Item 1A, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 that have not been disclosed in our periodic filings with the SEC.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Not Applicable

(b) Not Applicable

(c) Repurchases of Equity Securities by Issuer

Repurchases by us or our “affiliated purchasers” (as defined in Rule 10b-18(a)(3) of the Exchange Act) of registered equity securities in the second quarter of 2023 are shown in the table below. Repurchased shares may be reissued under our long-term incentive plan or used for other corporate purposes.

Period[1]	Total number of shares purchased[2]		Average price paid per share[3]	Total number of shares purchased as part of publicly announced plans[2][4]		Approximate dollar value of shares that may yet be purchased under the plans[5]
April 2, 2023 – April 29, 2023	118.5	$	175.60	118.5	$	658.9
April 30, 2023 – May 27, 2023	10.0		166.82	10.0		657.2
May 28, 2023 – July 1, 2023	99.3		167.55	99.3		640.6
Total	227.8	$	171.71	227.8	$	640.6

[1]The periods shown are our fiscal periods during the thirteen-week quarter ended July 1, 2023.
[2]Shares in thousands.
[3]Average price paid per share includes transaction costs to acquire the shares and excludes the non-deductible 1% excise tax on the net value of repurchases imposed under the Inflation Reduction Act of 2022.
[4]In April 2022, our Board authorized the repurchase of shares of our common stock with a fair market value of up to $750 million, excluding any fees, commissions or other expenses related to such purchases, in addition to the amount outstanding under our previous Board authorization. Board authorizations remain in effect until shares in the amount authorized thereunder have been repurchased.
[5]Dollars in millions.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

ITEM 5. OTHER INFORMATION

None of our directors or executive officers adopted or terminated a Rule 10b5-1 trading arrangement or a non-Rule 10b5-1 trading arrangement (as defined in Item 408(c) of Regulation S-K) during the second quarter of 2023.

ITEM 6. EXHIBITS

Exhibit 10.1†*	Offer letter to Mitchell Butier
Exhibit 10.2†*	Offer letter to Deon Stander
Exhibit 31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1**	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 32.2**	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 101.INS***	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
Exhibit 101.SCH***	Inline XBRL Extension Schema Document
Exhibit 101.CAL***	Inline XBRL Extension Calculation Linkbase Document
Exhibit 101.LAB***	Inline XBRL Extension Label Linkbase Document
Exhibit 101.PRE***	Inline XBRL Extension Presentation Linkbase Document
Exhibit 101.DEF***	Inline XBRL Extension Definition Linkbase Document
Exhibit 104***	Inline XBRL for the cover page of this Quarterly Report on Form 10-Q, included as part of this Exhibit 101 Inline XBRL document set

† Management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-Q.

* Filed herewith.

** Furnished herewith.

*** Furnished herewith. Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act, are deemed not filed for purposes of Section 18 of the Exchange Act and otherwise are not subject to liability under those sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AVERY DENNISON CORPORATION
(Registrant)

/s/ Gregory S. Lovins
Gregory S. Lovins
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

/s/ Lori J. Bondar
Lori J. Bondar
Vice President, Controller, Treasurer, and Chief Accounting Officer
(Principal Accounting Officer)

August 1, 2023

8080 Norton Parkway
Mentor, OH 44060
Phone 440 534-6000

May 25, 2023

Mitch Butier
[Address]
[Address]

Dear Mitch:

The Board of Directors and I are pleased to confirm the details of your new position as Executive Chairman of the Board, effective September 1, 2023.

Specific details of this offer are as follows:

Base Salary: Your base salary will be **$1,000,000** effective September 1, 2023, paid pursuant to customary payroll practices. Your next salary review and any adjustment therefrom will be effective April 2024. Subsequent salary reviews will be conducted by the Board's Talent and Compensation Committee (the "Committee"), with any approved changes made effective the following April, or on another date designated by the Company for a given year.

AIP Award: You will continue to be eligible to participate in the Company's Annual Incentive Plan ("AIP"), now with a target AIP opportunity of 120% of base salary, subject to applicable withholdings. Your 2023 AIP award will be prorated, with the first proration (January–August) based on your current base salary of $1,300,000 and your current AIP opportunity of 160% and the second proration (for the remainder of the year) based on your new base salary of $1,000,000 and your new AIP opportunity of 120%. The AIP, including eligibility criteria, may change at any time, with or without notice, in accordance with applicable law and at the discretion of the Company. You will no longer be eligible for the AIP after fiscal year 2023.

Long-Term Incentive (LTI): You will continue to be eligible to be considered for an annual LTI award, with your new target opportunity and award vehicles to be determined in connection with the 2024 annual LTI grant. The LTI program, including eligibility criteria, may change at any time, with or without notice, in accordance with applicable law and at the discretion of the Company.

Executive Benefits; Severance/Change of Control: Effective September 1, 2023, you will no longer receive an Executive Benefit Allowance, nor will you be eligible to participate in the Company's Executive Severance Plan or Key Executive Change of Control Plan.

Stock Ownership Requirement: Your stock ownership requirement will remain 6X your base salary.

You will continue to be entitled to the benefits generally available to Company executives in accordance with applicable plan provisions.

As a condition of this new position, we need to receive a signed and dated copy of this letter.

Congratulations on your new role.

Sincerely,

/s/ Julia Stewart

Julia Stewart
Chair, Talent and Compensation Committee of the Board of Directors

cc: Deena Baker-Nel

Accepted by: /s/ Mitch Butier

Date: July 31, 2023

Exhibit 10.2

8080 Norton Parkway
Mentor, OH 44060
Phone 440 534-6000

May 25, 2023

Deon Stander
[Address]
[Address]

Deon:

The Board of Directors and I are very pleased to offer you the position of President and Chief Executive Officer. This is an Executive Level 1 position and is effective September 1, 2023.

The key elements of your compensation are as follows:

Base Salary: Your base salary will be **$1,100,000** effective September 1, 2023, paid pursuant to customary payroll practices. Your next salary review and any adjustment therefrom will be effective April 2024. Subsequent salary reviews will be conducted by the Board's Talent and Compensation Committee (the "Committee"), with any approved changes made effective the following April, or on such other date designated by the Company for any given year.

AIP Award: You will continue to be eligible to participate in the Company's Annual Incentive Plan ("AIP"), now with a target AIP opportunity of **135%** of base salary, subject to applicable withholdings. Your 2023 AIP award will be prorated, with the first proration (January–August) based on your current AIP opportunity of 75% and the second proration (for the remainder of the year) based on your new AIP opportunity of 135%. The AIP, including eligibility criteria, may change at any time, with or without notice, in accordance with applicable law and at the discretion of the Company.

Long-Term Incentive (LTI): You will be eligible to be considered for an annual LTI award with a target opportunity of **550%** of base salary effective with the 2024 annual LTI grant. Executive LTI awards are currently delivered via a mix of Performance Units and Market-Leveraged Stock Units. The LTI program, including eligibility criteria, may change at any time, with or without notice, in accordance with applicable law and at the discretion of the Company.

Special Promotion LTI Grant: The Committee has approved a one-time special promotion LTI grant of stock options, with a grant date fair value of $3,000,000. This award will be granted on September 1, 2023 and will vest 50% on each of the third and fourth anniversaries of the grant date, in each case subject to your continued service. This award will be made pursuant to an agreement that expressly provides that it not be eligible for accelerated vesting upon termination by reason of Retirement, as defined in the 2017 Incentive Award Plan.

Executive Benefits: You will receive an annual executive benefit (EBA) allowance in the amount of $70,000 effective September 1, 2023, which will be paid with your normal payroll cycle. Your EBA allowance for 2023 will be prorated consistent with the proration of your 2023 AIP award. You will also be entitled to the benefits generally available to a Company Level 1 executive.

Severance/Change of Control: You will continue to be eligible for the Company's Executive Severance Plan, which now entitles you, among other things, to 2X the sum of your annual base salary plus your target AIP award for the year of termination plus the cash value of 12 months of employer and employee medical and dental insurance premiums. In addition, you will continue to be eligible for the Company's Key Executive Change Of Control Plan, which now entitles you, among other things, to 3X the sum of your annual base salary plus your target AIP award for the year of termination plus the cash value of 12 months of employer and employee medical and dental insurance premiums. These plans may change at any time, with or without notice, in accordance with applicable law and at the discretion of the Company.

Stock Ownership Requirement: Beginning September 1, 2023, your stock ownership requirement will increase from 3X to 6X of base salary. You must achieve and maintain this ownership requirement in accordance with the Stock Ownership Policy, which, among other things, gives you five years from the date of your promotion to achieve the requisite ownership requirement.

As a condition of your promotion, we need to receive a signed and dated copy of this letter.
Congratulations on your new role.

Sincerely,

/s/ Julia Stewart

Julia Stewart
Chair, Talent and Compensation Committee of the Board of Directors

cc: Deena Baker-Nel

Accepted by: /s/ Deon Stander

Date: June 1, 2023

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

CERTIFICATION

I, Mitchell R. Butier, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Avery Dennison Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Mitchell R. Butier

Mitchell R. Butier
Chairman and Chief Executive Officer

August 1, 2023

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

CERTIFICATION

I, Gregory S. Lovins, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Avery Dennison Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Gregory S. Lovins

Gregory S. Lovins
Senior Vice President and Chief Financial Officer

August 1, 2023

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER*

PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Avery Dennison Corporation (the "Company") hereby certifies, to the best of his knowledge, that:

(i) the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended July 1, 2023 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 1, 2023

/s/ Mitchell R. Butier

Mitchell R. Butier
Chairman and Chief Executive Officer

* The above certification accompanies the Company's Quarterly Report on Form 10-Q and is furnished, not filed, as provided in SEC Release 33-8238, dated June 5, 2003.

Exhibit 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER*

PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Avery Dennison Corporation (the “Company”) hereby certifies, to the best of his knowledge, that:

(i) the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended July 1, 2023 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 1, 2023

/s/ Gregory S. Lovins

Gregory S. Lovins
Senior Vice President and Chief Financial Officer

* The above certification accompanies the Company’s Quarterly Report on Form 10-Q and is furnished, not filed, as provided in SEC Release 33-8238, dated June 5, 2003.